

Detroit City Council Rationale for Appeal

We do not dispute that a financial emergency exists in the City of Detroit. In fact, we have worked as a Council, to put Detroit on the right fiscal path. We have consistently developed sound budgets which have not only included the tough cuts necessary to address our cash crisis, but we've also proposed a list of revenue generating opportunities. To further these efforts, the Council and Mayor's Administration developed a three-part plan over the 2012 December break, which is comprised of milestones and recommendations from the State of Michigan that addresses Detroit's financial emergency.

Given the time to achieve its projected results, we believe this plan, along with recommendations from several financial analysts that have been hired to assist city staff, can accomplish the goal of improved fiscal and operational health of Detroit. As outlined in our resolution appealing the Governor's determination, we've already taken several steps and we're beginning to see progress.

Copies of the Appeal Hearing Documents (the Financial Stability Agreement (FSA), the Memorandum Of Understanding (MOU) and the Joint Cash Plan) are available on the Detroit City Council website page by going to:

http://www.ci.detroit.mi.us/CityCouncil/tabid/2509/Default.aspx

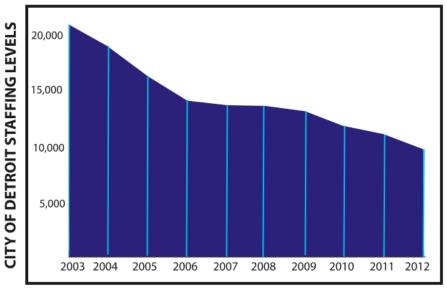
APPEAL RESOLUTION

Summary of Major Points

- The Detroit City Council and the Mayor's Administration developed, in concert with the adoption of milestones and recommendations by the State of Michigan, a satisfactory plan to address the City's financial emergency.
- This three-part plan is comprised of the following items:
 - The existing Financial Stability Agreement (FSA), i.e. a consent agreement, which became effective on April 4, 2012. Crafted and negotiated with the State to jointly undertake a long-term cooperative process to restructure operations and tackle the accumulated deficit.
 - The Memorandum of Understanding (i.e. Milestone Agreement) dated November 13,
 2012. Sets timetables and benchmarks for completion of restructuring tasks.
 - O A Joint Cash Plan developed over the December 2012 recess period by the Bing Administration and City Council, with financial (Ernst & Young) and legal (Miller Canfield P.L.C.) consultants. Designed to resolve the City's immediate cash crisis by implementing structural changes such as layoffs, revenue initiatives, pension and healthcare changes, as short-term cash opportunities such as increased collections, asset sales, cash conservation efforts coupled with property tax distributions, and \$30 million in proceeds from the escrow account which will result in a positive net cash flow going into FY2014.
- The Council is seeking continued implementation of the plan with enhancements to be provided by consultants.
- In the short time since the plan above was developed, the City has made measurable progress toward the goals outlined in the document. The following are examples of progress the City has made:
 - Over the last nine years the City has reduced its workforce by 45% from 20,799 employees in 2003 to 11,396 in 2012 and that number continues to decline (see chart on page 3).

IMPACT OF HEAD COUNT REDUCTIONS

IN THE LAST NINE (9) YEARS THE CITY OF DETROIT HAS REDUCED ITS WORKFORCE BY 45% FROM 20,799 EMPLOYEES IN 2003 TO 11,396 IN 2012



FY 2003-2012

- •The City continues to see reduction in active head count across all departments
- -Actual head count as of 1/31/2013 was 9,696 which is down ~1,200 from the beginning of the fiscal year
- •The reduction in employees will result in ~\$50M in annualized savings
- o 15 of the 21 items listed in the FSA under Annex B (City's Operational Reform Program) have been or are in the process of being completed.
- Per Annex B, the Council had approved the Articles of Incorporation of the Public Lighting Authority, screened and interviewed potential board candidates, and appointed board members. The board conducted its first meeting on March 1, 2013.
- o Requirements in Annex C will be completed in the upcoming budget cycle.
- All of the employment contracts ratified since the FSA was adopted have included all of the provisions set forth in Annex D.
- The City has partnered with other entities to further reduce the Cost to the City for providing certain services such as the Historical Museum, Zoological Park, Belle Isle Nature Zoo, Easter Market, and in September 2009 the City approved transfer to the Cobo Hall to the Detroit Regional Convention Authority.

Opportunities for Partnership with the City of Detroit and the State of Michigan

- There are partnership opportunities for the City and State which have been reported inaccurately in the Financial Review Team's report:
 - o The report cites revenue collection from 36th District Court citations although the City has <u>no</u> administrative control over the Court. The State must exercise its administrative authority it has over lower courts to improve collection (**see chart below**).

FINDINGS REGARDING 36TH DISTRICT COURT REVENUE COLLECTION CITATIONS



The City of Detroit has no administrative control over 36th District Court. The State of Michigan could greatly assist the City of Detroit by exercising its administrative authority over lower courts to improve 36th District Court operations.

 The State previously agreed to assist income tax collection as well as finalize the transfer of Department of Human Services functions through the State's ongoing RFP process (refer to FSA Annex E).

UPDATE ON CITY PROGRESS

Progress on MOU Milestones

MOU Milestones for Accessing Escrow Funds

- The City has satisfactorily met the required milestones to enable access to additional funds currently in the escrow account
- \$10m was drawn in December 2012 and the remaining \$20m was requested on 2/8/2013 (the State has yet to release the \$20m in escrow funds to the City even though milestone requirements have been met)

Advisors Retention

- The City completed the process to retain advisors, as follows:
 - o Miller Buckfire retained as investment bank
 - o Ernst & Young retained as financial restructuring advisor
 - o Conway MacKenzie retained as operational restructuring advisor
 - o Milliman retained as pension and healthcare advisor
 - o Miller Canfield retained as external legal counsel

CONSENT AGREEMENT (FSA) PROGRESS

The City has made progress on 20 of 25 initiatives which includes:

- Creation of the Financial Advisory Board (FAB);
- Creation and filling of the Program Manager Director and Chief Financial Officer positions (approved by City Council);
- To address known deficits, approval by the City Council of a \$45 million budget amendment to address delays in implementation of City Employment Terms labor contracts and a \$30 million budget amendment to address a pension error;
- Monthly reports on payables, revenues, expenditures and cash flow to the State from the Bing Administration;
- On February 11, 2013, the FAB approved the revenue consensus process addressing FY 2012-13 and FY 2013-14 revenues based on the hard work between Fiscal Analysis, Auditor General, Budget, Finance and members of the FAB; and
- Pursuant to the FSA, the City is currently conducting the revenue conference to determine revenue projections to be used in the preparation of the triennial budget